

# Support for East European Democracy (SEED) Report

## Fiscal Year 2000

### Bulgaria

#### ECONOMIC DEVELOPMENTS

In FY 2000, the Government of Bulgaria (GOB) sustained its commitment to economic reform and restructuring. Bulgaria made substantial progress in meeting the Copenhagen Economic Criteria for European Union accession, defined largely in terms of competitiveness, the existence of a market economy with liberalized price and trade regimes, and an enforceable legal system. Still, insufficient institutional reforms, notably those concerning the enforcement of laws and regulations, remain an obstacle to growth and are a focus of E.U. accession negotiations. For example, the judicial system fails adequately to uphold creditor claims, thus discouraging commercial lending, and too often rules against financial regulators who seek to prevent financial crimes and corruption.

Still, the GOB has made some progress against crime and corruption. In naming Peter Zhotov as Deputy Prime Minister, Prime Minister Kostov added a key official renowned for integrity and incorruptibility. Also, several anti-crime and corruption laws were enacted. For example, the Privatization Act amendment improved transparency, thereby precipitating the resignation of senior party officials widely rumored to have profited from the sale of state assets.

The GOB continued to sell state assets, although key companies such as the state telecommunications company and energy and other utilities remain to be sold. With the Privatization Act amendment, the sale of non-bank assets should accelerate because of streamlined and more transparent tender procedures. Within the banking sector, Bulbank was privatized, and the last remaining state-owned bank, Biochim, has been tendered for privatization. Private assets should exceed 70 percent of GDP in 2001.

The GOB also made substantial progress in reforming the main social benefits systems, which were threatened with insolvency after the 1996-97 near-economic collapse. This was compounded by negative demographic trends, which reduced contributions necessary to support a burgeoning number of retirees. Despite weak popular approval ratings, the Kostov government enacted reform legislation, established regulatory structures, and moved to privatize parts of the pension and health benefits systems.

Capital market development also gained momentum, with an increase in corporate debt issues and the listing of the Deutsche Telecom depository receipt - a significant development as the first "receipt" issue in Southeastern Europe (SEE). In the weeks following this event, transaction volume on the Bulgaria Stock Exchange (BSE) swelled dramatically. BSE signed an agreement with the Vienna-based New Exchange (NEWEX), becoming the first SEE exchange to step deliberately toward Western capital markets. The Securities Regulator is coordinating a regional effort to share enforcement-related information, and to integrate and harmonize securities oversight in the regional markets.

These gains in economic restructuring underpin the three-year-old Currency Board Arrangement, which pegs the lev to the German DM and ties the money supply to foreign currency reserves. With sound fiscal policies and budget discipline, Bulgaria has preserved internal economic stability and held core inflation in check. However, the economy is small, and growth thus hinges on foreign demand for exports and the cost of U.S. dollar-denominated imports. Soaring energy prices and the near 20 percent depreciation of the DM against the dollar drove inflation above 10 percent for 2000. However, service sector gains and the firming of world market prices for key exports (chemicals and metals) should help Bulgaria meet its CY 2000 growth target of 4.5 percent. Bulgaria is now well positioned to play an increasingly important role in regional economic growth, and in assuring regional economic stability.

#### POLITICAL DEVELOPMENTS

This year, the GOB devoted itself to accelerating integration into the EU and Euro-Atlantic structures, as well as to strengthening security and stability in SEE via participation in the Stability Pact. The European Union's decision to open accession negotiations with Bulgaria, in December 1999, heralded a new political and economic era for the country.

During FY 2000, the GOB facilitated regional cooperation and development. As a participant in the Stability Pact for South East Europe, Bulgaria presented 17 projects aimed at strengthening democratic institutions, economic recovery and growth, infrastructure, and communications in the region. Work on one of these –Pan-European transport corridor No. 4, connecting Central Europe with SEE countries, and a bridge over the Danube to Roma at Vidin-Calafat – is in the planning stages. Bulgaria also actively took part in existing regional initiatives (e.g., SECI, CEI, SBDI, and CEFTA) and hosted a number of region high-level meetings to strengthen cooperation and promote joint efforts toward peace and stability.

The recent political changes in Serbia open opportunities for economic, political, and cultural cooperation between Bulgaria and Yugoslavia. Bulgaria has expressed readiness to enhance bilateral and regional economic cooperation, and supported Yugoslavia's inclusion in the Stability Pact. The GOB is pursuing a program to expand economic contacts, including on electricity rates and a free trade agreement, and has included a number of related infrastructure projects in its updated National Regional Development Plan 2001.

Domestically, the GOB faces the widespread public perception of corruption and non-performance. While more anti-corruption legislation was passed, corruption remains a political and economic problem. The Prime Minister undertook a major cabinet reshuffle in December 1999, to accelerate reforms, boost public confidence, and remove some top officials suspected of corruption. The media continued to publicize major corruption allegations against the governing elite, which, coupled with current socio-economic hardships, has contributed to a decrease in public support for the current government.

The protection of human and minority rights improved in FY 2000. Following the 1999 Roma Integration Program, Roma were nominated at several levels of the state and municipal administration. A working group was established, comprising representatives from different Roma organizations and GOB officials, to minimize the effect of the economic crisis on the Roma population. However, many observers are disappointed by the relative lack of results. Bulgarian National Television started a program on Roma culture and Turkish-language news broadcasts.

Following the 1999 elections, the GOB imposed fiscal constraints at the local level, such as mandates and restrictions on borrowing. The Prime Minister recommended a Constitutional amendment to give local governments more authority over budgets, but it is unclear whether there is sufficient political will to follow through. Misallocation of municipal funds seems to be a key reason for the imbalance in municipal budgets. A recent audit by the State Financial Control charged municipal authorities with improper allocation of state subsidies, infringing priority expenditures, and financing non-budgetary activities and programs. As a result, most municipalities face a severe budget crisis this year. Current municipal budget analyses predict this trend to continue, due to the GOB's refusal to cover 1999 deficits and to reduced central fund transfers. In conjunction with weak commitment to decentralization, the financial situation at the municipal level has become so severe that all parties recognize that some restructuring of intra-governmental finances will be necessary.

This year, the country is likely to face increased political partisanship due to the forthcoming elections (before June 2001). Campaigning has begun, and political forces are jockeying for position. It is generally accepted that the ruling Union of Democratic Forces party is unlikely to maintain a majority in Parliament. The result will probably be a coalition government, which hopefully will retain commitment to overall reform.

## **SEED ASSISTANCE SUMMARY**

### ***Program Overview***

Through FY 2000, the U.S. had contributed over \$352 million in SEED assistance to Bulgaria, with about \$57 million in FY 2000 alone. USAID's program is designed to accelerate the country's transition to a market-oriented, democratic society and to help position it for EU accession. The current strategy was developed in 1997, when USAID initiated programs to help the new Kostov government implement economic and social restructuring and reform programs, following the 1996-1997 economic crisis. That was a "graduation strategy," designed to prepare the country for the opening of EU accession negotiations, before phasing out in 2002.

During 1997-1998, USAID assistance played a key role in helping Bulgaria with its economic reform agenda and in strengthening local governments and civil society organizations.

In 1999, the impacts of the Russian and Asian economic crises and the Kosovo conflict gave reasons to revise the USAID strategy for Bulgaria. Further, the U.S. post-Kosovo focus on helping to rebuild and preserve economic and political stability in the region suggests the need to continue the SEED Program beyond 2002. A revised strategy, proposing a post-2002 closure date for USAID bilateral assistance, will be prepared in FY 2002.

Despite the upcoming strategy review, many elements in the existing strategy remain valid and guide ongoing project implementation. Several new program components were added: a health sector finance project that complements the highly successful two-year-old pension reform initiative; an ethnic integration/conflict resolution program to improve the situation of minorities in key municipalities; two new initiatives to build stronger regional markets, increase the competitiveness of key sectors, and strengthen bilateral trade relations within SEE and with Western European, North American, and other developed markets; and three Internet projects under the Internet for Economic Development (IED) Initiative, launched by President Clinton in November 1998.

### ***Building Democracy***

To support Bulgaria's efforts to establish and consolidate its democracy, USAID promotes three primary objectives: 1) increased, better informed citizen participation in public policy decision-making; 2) an improved judicial system that better supports democratic processes and market reforms; and 3) more effective, responsive, and accountable local governments. USAID will maintain targeted assistance to civil society organizations, working toward sustainable development of the sector and mobilizing citizens to speak out on policy issues. U.S. programs will also focus on key issues in media development, ethnic integration, judicial reform, and anti-corruption and anti-crime efforts.

### ***Civil Society Development***

USAID's major program in support of civil society, the Democracy Network Program (DemNet), began its second phase in late 1998. This four-year program builds the capacity of select indigenous NGOs, called Intermediate Support Organizations (ISOs), through which services and direct grants are provided to a broad base of local NGOs. Eleven ISOs were chosen to assist NGOs working on democracy, economic strengthening, social safety net, and environmental issues. These ISOs are intended to become major funding magnets for NGOs after Bulgaria graduates from USAID assistance. USAID is also assessing the opportunities for a program addressing key partnerships among NGOs, local governments, and businesses, leading to the establishment of sustainable community funding mechanisms.

On the policy level, USAID continues to provide assistance in developing NGO legislation. In September 2000, the Parliament enacted a framework law on Legal Persons with Non-Profit Purposes. The law governs the establishment, functions, and legal status of non-governmental organizations, the first step to changing the NGO legal environment, opening the way for changes in tax and related legislation to improve NGO sustainability.

### ***Media***

The Professional Media Program works with the Association of Bulgarian Broadcasters (ABBRO), helping it to provide training and other services to journalists. ABBRO has increased its membership from 21 in 1997 to 100 in 2000. With USAID assistance, the Bulgarian Media Coalition became a unified voice of the independent media by initiating the first public session of the Bulgarian Constitutional Court, which reviewed the newly adopted Radio and Television Law. As a result, a drastic constitutional violation in the new legislation – the breach of privacy – was eliminated from the law, which previously allowed the authorities to check homes for undeclared television sets. In addition, the Television Training Center, established last year to develop a pool of highly qualified television news reporters and producers, provided 15 two-week training sessions to a variety of private TV stations.

### ***Conflict Prevention/Ethnic Integration***

The integration of minorities into society is key to Bulgaria's entry into European structures. Toward this end, USAID launched the Conflict Resolution and Ethnic Integration Program to improve the situation of minorities in key municipalities through training, small grants, and technical assistance. The program, started as a pilot activity

in the city of Lom, will assist the Roma minority to improve their economic, social, and educational opportunities.

### ***Parliamentary Internship Program***

Implementation of the Parliamentary Internship Program began in March 2000. Groups of 20 volunteer interns will serve as legislative assistants at the Parliament, where they prepare comprehensive legislative studies for parliamentary committees and groups. The program also increases citizens' participation in the legislative process, as the interns solicit the input of civil society and the NGO sector and work closely with the Parliamentary Information Center, another USAID-supported activity.

### ***Anti-Corruption Activities***

The USAID-funded Coalition 2000 expanded its scope to include anti-corruption work with Customs, in addition to the successful, widely recognized Public Awareness Campaign. Sub-grants from the Coalition support small NGOs at the local level, making a strong impact on governance in many communities. The Draft Law on the People's Defender (the Ombudsman institution) has reached the Council of Ministers and has a good chance of being introduced in Parliament. The Coalition has also published a number of pamphlets on areas of social life where corruption is most widespread, including a Manual on Local Anti-Corruption Strategies. The overall success of the Coalition's work has resulted in numerous invitations to present the Coalition 2000 model at international gatherings, such as at the OECD's Forum 2000, even though Bulgaria is not a member. Another significant achievement was the formation of the South East Legal Development Initiative, which, following the Coalition 2000 model, adopted anti-corruption as a major activity area, but at the regional level.

### ***Judicial Reform***

To reinforce significant positive developments, USAID began a three-year \$7 million program to support judicial reform. The project has made substantial progress in two areas - institutional strengthening of the Magistrate Training Center and court administration. The Magistrate Training Center is the only specialized entity providing continuing legal education for new and sitting judges. It is working to uphold the image and increase the professionalism of judges. During 2000, about 1,000 judges were trained in commercial, civil, and criminal law. In the court administration area, USAID worked with the Ministry of Justice to implement a pilot model court program. The first two model courts, in Shumen and Smolyan, became operational in the program's first seven months. They use a software system that allows case docketing and case-management operations to be automated. In addition, the program worked on legislative and administrative reforms necessary to implement many significant new procedures.

### ***Strengthening Local Governments***

USAID's Local Government Initiative (LGI) supported institutional development for local government in budget analysis, municipal property management, citizen participation, revenue generation, communication strategies, project monitoring, etc. Nearly 900 officials took part in LGI training programs in FY 2000. Over 220 mayors and deputy mayors from 118 municipalities were trained in solid waste fee-setting methodology, and agreed to disseminate the model more broadly through the regional municipal associations. Local governments were able to affect several key pieces of national legislation; central government technicians participated in working groups reviewing subsidy formulas and improving legislative crafts; and regional governments have been brought together with local governments in regional planning exercises. Four twinning partnerships between Bulgarian and American cities were established: Silistra-Kettering, Ohio; Pazardzhik-West Bend, Wisconsin; Vidin-Davenport, Iowa; and Veliko Tarnovo-Golden, Colorado. In addition, four other municipalities replicated strategic planning, public-private partnerships, and land-use practices that were developed under the program.

The PLEDGE program, under an Interagency Agreement with the U.S. Department of Labor, supported local economic revival and enterprise competitiveness. In all, 29 municipalities have formed multi-sector working groups to develop and implement local economic plans through a yearlong, community-based planning process taught and coordinated by PLEDGE. By the end of this year, an estimated 400 jobs will have been generated.

The NGOs and associations supported by USAID through these grants are well structured and capable of achieving their organizational objectives, including: providing technical services and educational programs for local officials and municipal staff; lobbying and advocating to the central government on issues effecting local government; building dialogue with Ministries, Members of Parliament, regional governments, and other donors;

building cross-border programs; and implementing discrete projects. The National Association of Municipalities represents an 262 Bulgarian municipalities and is recognized as a model for the region.

### ***Economic Growth***

The USAID economic growth strategy seeks to establish a stable, market-oriented, private financial sector, and to accelerate the development of an open market environment. Sector activities being implemented contribute to Bulgaria's preparations for EU accession, and are closely coordinated with IMF, World Bank, EU, and other donors' programs.

Under the economic restructuring goal, USAID is helping to implement macroeconomic reforms that will create the necessary conditions for business to grow, to create jobs, and to generate wealth. Consistent with the 1998 strategy, important new activities have been launched to support the ongoing process of economic restructuring and reform. These include an emphasis on strong, effective regulation in banking, capital markets and related financial services sectors, including pensions, health, and insurance.

Although growth and job creation remain central to the strategy, activities to promote regional market development and integration are receiving an increasing focus. For example, the Southeast European Trade Initiative (SEETI) has inspired intra- and inter-regional trade and regional competitiveness with more developed market economies. USAID has invested heavily in developing new financial sector instruments that mobilize investment and working capital. All are private sector oriented and are based on commercial principles, characteristics that differ from many activities being implemented by other donors.

### ***Banking Sector Stabilization and Restructuring***

**Bank Privatization:** In July 2000, a team of senior U.S. advisors to the Bulgarian Bank Consolidation. Company (BCC) closed the fifth and largest bank transaction, privatizing Bulbank AD to a consortium of Unicredito Italiana and Allianz. USAID support to BCC began in 1997, when the GOB forged the bank privatization strategy with USAID, the IMF, and the World Bank. The sale of Biochim Bank, the last state-owned commercial bank, is being negotiated, and closure is expected in early 2001. USAID advisors have been, instrumental in all phases, from preparing tender documents to advising on individual negotiations. Despite many market and political obstacles, the GOB has been resolute in privatizing the state banks.

**Bank Supervision:** U.S. assistance to the Bulgarian National Bank's Bank Supervision Department has been instrumental in strengthening banking system oversight and supervision. Initial efforts began in 1997, and focused on the on-site supervision/examination functions. With the exit of the EU and IMF this year, USAID assumed responsibility for off-site supervision and policy coordination. In FY 2000, USAID assisted in drafting legislation and in creating the Deposit Insurance Fund, an institution akin to the U.S. Federal Deposit Insurance Corporation (FDIC).

The bank supervision project primarily supports training and the adoption of risk-based examination procedures, using the FDIC model. USAID advisors have worked with National Bank staff to develop the Procedures Manuals that each examiner must follow. Advisors conduct training and accompany bank regulators in on-site examinations to assure that prudential practices are applied. In early 2000, USAID began training in similar risk-based methods for off-site activities. Advisors worked to promote coordination between the two examination teams to assure consistency in individual bank ratings, which influence internal bank operations and insurance premiums, and are an important indicator of banking sector health and systemic risk.

Effective bank supervision, coupled with sound deposit insurance, is fundamental to building public trust and confidence in the banking system. Consequently, USAID strongly supported the newly established Deposit Insurance Fund (DIF) in all aspects of management, operations, and policy formulation and implementation. USAID advisors, many of them senior FDIC officials, worked with the DIP to develop premium collections and investment policies. In addition, advisors contributed extensively to critical legislation that will make bank resolution (closure) an administrative procedure assigned to the DIF, rather than a judicial process under the aegis of the courts. This is critical for building confidence and soundness in the banking system. It also lays an important philosophic marker that will ultimately remove courts from non-judicial matters, such as asset appraisal and disposition.

**Commercial Banker Training:** In FY 2000, USAID expanded the commercial banker training program, which

complements the successful bank privatization and supervision programs. Bulgaria has only recently begun to develop up-to-date banking skills and a more sophisticated banking culture. It will take years for a generation of market-oriented bankers to be trained to compete in a sound, stable banking system. USAID's commercial banker training program is implemented through the Association of Commercial Banks and its subsidiary organization, the International Banking Institute.

### ***Capital Markets Development***

USAID's capital markets development program provides assistance to establish sound regulation and regulatory institutions, and to build a broad, liquid securities market by strengthening exchange, depository, and financial intermediaries. As with all economic sector programs, capital markets activities are based upon sound regulation and oversight. To this end, technical assistance to the Securities Commission contributed to the development of the Law on Public Offerings and other relevant legislation and implementing regulations. Significant effort has been invested in strengthening the Commission and self-regulatory institutions, such as the Bulgaria Stock Exchange (BSE), to oversee market operations and participants and to take appropriate action, as warranted.

In FY 2000, USAID increased efforts to bring new and diverse financial instruments to market. This has produced a half dozen corporate debt issues, through both private placements and public issues. The Capital Markets Project has also built a platform for asset-backed products, with the first mortgage-backed securities expected to be issued in 2001. In FY 2000, government treasury bills and the first depository receipt for Deutsche Telecom were listed on the BSE. These provide critical instruments for institutional investors and signal a major move toward market integration with developed Western European markets.

Consistent with EU accession and with broader Stability Pact-related imperatives to integrate markets, Bulgaria has taken deliberate steps to link its capital market with regional markets and exchanges. The GOB has signed memoranda of understanding with Greece and Macedonia, providing a foundation to cross-list and for cross-border settlement and registry of securities. Of potentially greater importance, Bulgaria is now allied with the Vienna-based "New Exchange" (NEW EX), formed by the Frankfurt and Vienna stock exchanges. Bulgarian exchange and regulatory officials have signed a Memorandum of Understanding with NEW EX, and are now working to harmonize legislation, regulations, and trading protocols necessary to cross-list and execute securities transactions. This alliance will help mobilize capital and expand the stock of listed securities on the BSE. Bulgaria is also seeking to enlist similar alliances between neighboring exchanges in Croatia, Macedonia, Romania, etc., and NEW EX. Multiple alliances with NEW EX will create a strong attraction for Western securities analysts and thus institutional investors seeking to build a regional emerging markets portfolio.

### ***Pension Reform***

Bulgaria has made substantial progress in public and private pension reform since 1998. USAID has supported these politically charged reforms from the outset. In two years, Bulgaria enacted legislation that essentially privatized the social security system. However, more public pension reforms are needed, as contributions still pass through the government as quasi-taxes, and the GOB sets pension levels. Private pension companies maintain "member" accounts, managing both mandatory and voluntary contributions. To date, eight private pension funds have been licensed to receive and manage contributions. USAID has helped to train the pension companies in back office operations and portfolio management to increase the integrity of these systems. The Pension Project also helped create the Social Insurance Security Agency to regulate the fledgling pension industry. During FY 2000, the first 400,000 "high-risk" workers were converted to the private system. The balance of the workforce, about two million people, will convert over the next year. The record-keeping burden associated with collecting the contributions and managing individual accounts is immense. Thus, USAID is providing substantial and increasing assistance to the National Social Security Institute, directed at data management and record keeping, which are essential to the pension system's integrity.

### ***Health Sector Finance Reform***

In FY 2000, Bulgaria undertook broad health sector reform, including the privatization of state-owned hospitals and clinics and the medical care financing system. USAID launched a project supporting the health finance element, which is closely allied with pension reform. USAID supported the setting up of individual accounts, creation of a preferred provider type of system, and development of standardized fee structures. A principal counterpart in this effort is the newly established Bulgarian National Health Insurance Fund, which collects individual health contributions, manages the assets, and pays claims to the health care providers with whom it signs and manages contracts. USAID assistance supports the establishment of accurate record-keeping and

data management; sound investment procedures; and efficient claims payment. USAID also backs the emerging private voluntary health insurance funds, regulatory system, and structures to oversee them.

### ***Taxation and Debt Management***

USAID has historically worked closely with the U.S. Treasury and, under several Inter -Agency Agreements, has funded resident and intermittent advisors for tax administration and policy and debt management. Working with the Ministry of Finance's (MOF) Tax Administrative Department, advisors have assisted in reorganizing tax administration along functional lines, enhancing revenue estimation and audit selection procedures, and creating a "large taxpayer" unit. In the 1999 Tax Code, the GOB laid the foundation for a Unified Revenue Agency that collects all tax and social contributions, including pension and health. Unification of collections is significant and positive, and the presence of USAID advisors in all three sectors – tax, pension, and health – will bring efficiency and ensure cooperation.

The USAID Debt Management advisor has worked with the MOF and the National Bank for the past two years. The advisor has improved debt management and issuance practices, and played a significant role in drafting the Sovereign debt Law. Assistance to the MOF has greatly improved the GOB's auction procedures and has helped to reduce yields and extend the term structure of Bulgarian government debt. Additional efforts focus on strengthening the primary dealer network and on broadening the secondary market for Bulgarian government debt.

### ***Energy Sector Restructuring and Reform***

In FY 2000, the GOB broke the National Electric Company into separate, state-owned generation, distribution, and transmission companies as the first step in de-monopolization and privatization. However, several key reforms remain to be implemented, including third-party access and a fully independent regulator. The State Agency for Energy and Energy Resources (SABER) exercises near-absolute control over the energy sector, functioning much as a Ministry, although it has no such official status. In violation of open-market principles and contrary to IMF and World Bank conditionality, SABER imposed energy price caps in mid-2000. SABER also precipitated the en masse resignation of all the State Energy Regulatory Commission's commissioners and wavered in its commitment to EU accession criteria for third-party access to the power transmission network and the closure schedule of the Kozloduy nuclear power plant. SABER has not advanced a strategy for energy sector privatization that adequately promotes electricity sector competition. For these reasons, USAID suspended direct energy sector assistance in 1998, and instead focused on promoting municipal and industrial energy efficiency. The energy efficiency program provides technical assistance in project identification and design. A companion commercial finance facility, known as the Development Credit Authority, was established with the United Bulgarian Bank. This facility provides a partial guarantee for energy efficiency-related loans and has mobilized some commercial credit to the sector.

### ***Private Sector Development***

Despite lingering economic and political instability in SEE, Bulgaria's private sector continued to expand, representing about 70 percent of gross value added, or 57 percent of GDP. Adding the "gray market" economy could boost reported GDP by 20-50 percent, according to some analysts. Although such micro-entrepreneurial production is important to household incomes, it is not considered to be a source of sustainable, long-term economic growth and will not drive EU accession. USAID's strategy for business development supports the EU accession effort, which rests largely on the establishment of a market-oriented economy and businesses that can sustain the competitive pressures of the EU. USAID efforts support laws and policies conducive to private sector growth; increased access to capital; and improved competitiveness within the region and with Western Europe. Improving the competitiveness of viable firms is at the core of USAID's enterprise strategy. This means working with industry clusters in tourism, garment manufacturing, high-tech, and other sectors, and focusing sharply on increasing revenues, exports, and employment. Intensive firm-level assistance concentrated on improved production, operations and finance, trade, and marketing supports. Since part of competitiveness relates specifically to reducing administrative barriers to business development and investment, USAID invests significant effort in improving the legislative and business climate.

To support competitiveness, USAID actively promotes trade through multi-country efforts, such as the South East European Trade Initiative (SEETI), and through business-to-business events with Macedonia, Romania, and others. Each has generated exports for participating countries and enterprises. For instance, SEETI inspired a trade agreement between Bulgaria and Croatia that facilitates trade. The first Bulgaria-Macedonia trade event

produced nearly a million dollars of sales contracts, with subsequent events yielding similar results. USAID also established a Trade Development Center that provides marketing assistance and has already brokered trade relations resulting in increased exports. USAID supports local and regional trade through high-tech matchmaking facilities such as the Global Technology Network and Ecolinks; which is dedicated specifically to environmental technologies.

In conjunction with the U.S. Department of Agriculture (USDA), USAID has implemented highly successful programs targeting agricultural commodity markets and farm-sector finance. USAID and USDA assisted in enacting the Grain Storage and Trade Law, under which warehouse licensing and bonding procedures were developed, and the Warehouse Receipt System (a marketable financial instrument secured by warehoused grain) was created. In FY 2000, 22 bonded warehouses were licensed, with nearly 250,000 metric tons of stored grain. Using receipts as collateral, SG-Express Bank, UBB, and Union Bank originated more than \$3.56 million in working capital loans to help farmers finance seed and fertilizer purchases for the next crop cycle. Bulgaria's success has been fundamental to stabilizing domestic farm sector revenues, thus sustaining household incomes.

### ***Improved Quality of Life I***

The establishment of the Currency Board Arrangement in 1997 helped to reverse the downward trend of the main macroeconomic indicators. However, there is strong evidence that living standards have fallen dramatically in recent years. The income gap between population groups (which is closely correlated to increased poverty) has risen. The unemployment rate hovered around 18 percent for most of FY 2000. Real incomes are decreasing, and the social assistance system in place has not responded effectively to the most needy and vulnerable groups, such as the growing elderly population and ethnic minorities. The 2000 UNDP Human Development Report indicates that over the last decade Bulgaria's accumulated change in the Human Development Index, measuring the average achievement in a given country in the basic dimension of human development (along and healthy life, knowledge, and a decent standard of living) has been minus 0.01, the most acute downturn within the region. Finding additional resources to sustain stabilization, encourage self-reliance through access to development opportunities, and increase much-needed expenditure for health and education is a major challenge for the GOB. USAID addressed some of these issues through the \$8 million in the Regional Initiative Fund and the \$5 million Social Safety Plan, pledged under the ESF program, as well as through the conflict resolution/ethnic integration program.

### ***Special Initiatives***

**Economic Support Fund (ESF) Grant Agreement:** In early FY 2000, USAID provided \$25 million in Economic Support Funds (ESF) to the GOB for emergency balance-of-payments support to cushion the effects of the Kosovo crisis on the economy. These funds were used to service GOB debts to the U.S. (outstanding PL 480 corn debt) and the World Bank. This enabled the GOB to redirect its local currency resources to support four major social and economic welfare programs. These included severance payments to employees of closed, state-owned enterprises; the Social Safety Fund (SSF) for the poorest pensioners; the Regional Initiatives Fund (RIP), launched with a \$5 million World Bank loan and administered by UNDP; and budget support for the GOB's refugee programs in Macedonia.

The SSF targets disadvantaged groups, including the poorest pensioners, and contributes directly to ongoing efforts to redesign the state pension system. Thus, USAID support to the Fund plays a critical safety-net function in assisting the poor to meet their energy needs, while helping to sustain public support for the difficult economic reform process.

Together with the Ministry of Labor and Social Policy, UNDP, and the World Bank, USAID participated actively in implementing the RIP, using \$4.5 billion to fund 70 new infrastructure projects, including rehabilitation of market structures, roads, water supply, bridges, schools, and healthcare centers. These projects provide short-term employment opportunities and tangible social benefits for the country's poorest communities.

**Bulgaria Crisis Recovery Program (BCRP):** The Bulgaria Crisis Recovery Program (BCRP) was designed and funded with \$5 million in SEED Supplemental resources to accelerate the recovery of communities affected by the Kosovo crisis. The program has two elements - the Danube River Initiative (DRI) and the training and education program for Kosovars at the American University in Bulgaria (AUBG).

Assistance to Danube River communities is provided under the DRI to strengthen local governments and to



improve social and economic conditions through economic development, planning, and technical assistance to enterprises. DRI grants fund citizen participation projects and small-scale infrastructure projects in 23 municipalities along the Danube River and 31 others associated with this region. DRI achievements include: micro-credit loans to nearly 400 clients; successful operation of a business incubator in Vidin; extensive technical assistance and training to six municipalities in solid waste fee-setting; individual assistance grants to a number of small and medium enterprises; small-scale infrastructure grants in nine municipalities; 10 local economic development projects under the PLEDGE program; Customer Service and Information Centers operational in four Danube River cities; seven NGO grants to create multi-sector partnerships within the community; and an education program for displaced workers.

As part of the BCRP, the AUBG offers vocational training and education to young Kosovar refugees. The program's main objective is to build future human capacity by providing practical job skills for today's marketplace and enhancing career opportunities for young adults. Thus far, 276 Kosovar students have completed training programs in business administration, public administration, and journalism. In addition, 76 Kosovars attended courses in AUBG's English Language Institute, and 10 Kosovar students directly related to this project were admitted to AUBG's regular undergraduate program.

**Biodiversity Conservation and Economic Growth (BCEG):** To support the creation of a sound nature protection management system, USAID launched the Biodiversity Conservation and Economic Growth Project (BCEG) as a follow-on to the GEF Biodiversity Project. Under this initiative, important elements of small enterprise development and municipal administration supplement a host of new national park management responsibilities. USAID assisted the Ministry of Environment and Waters in the finalization, review, and public hearings of the management plans for the Rila and Central Balkan National Parks. The activity supports the development and management of the planning process for the newly established Rila Monastery Nature Park and the development of financial mechanisms for protected-area sustainability, thus alleviating constraints to protected-area revenue capture.

**EcoLinks:** Bulgaria was the regional leader in grants awarded under USAID's regional EcoLinks Program, with 29 Challenge Grants and 35 Quick Response Awards for the implementation of cross-border partnership projects in FY 2000. The program links businesses, local governments, and associations with counterparts in the U.S., or other countries in the region, to promote regional efforts to address environmental problems with market-based solutions. EcoLinks assists these organizations to identify environmental issues, adopt best practices, and increase trade and investment in environmental goods and services.

**Internet Initiative for Economic Development:** In FY 2000, USAID initiated three activities under President Clinton's Internet for Economic Development Initiative to boost economic development, gain access to knowledge, improve standards of living, and foster the free flow of ideas. First, public-private partnership telecenters will be established by the Public Computer & Communication Center Pilot Telecenter Project to bring the opportunities of the Internet to remote, under-served areas, mostly viewed as commercially unattractive. Second, the Southeast Europe Online project, implemented by an indigenous NGO, seeks to develop a virtual network of NGOs, as well as an Internet platform, that could serve as a meeting place for civil society and donor organizations in the region. Third, a Public Internet Portal on the Bulgarian Economy will be created as a "one-stop shop" for businesses and researchers.

**Peace Corps SPA:** The Small Project Assistance (SPA) Program is a unique activity that joins Peace Corps Volunteers' human resource capabilities with the financial resources of USAID to help community groups help themselves. In FY 2000, 23 community projects were funded, supporting environmental activities and the establishment of computer labs or English language centers at secondary schools.

### ***Cross-Cutting Projects***

**TRANSIT -Europe:** Technical Training for Societies in Transition (TRANSIT-Europe) is the primary human capacity development program in Bulgaria providing short-term training in the U.S. and other countries in the region. TRANSIT's goal is to further enhance USAID's ability to achieve its strategic objectives by equipping Bulgarian leaders and professionals with skills and practical knowledge to develop and support democratic processes, free enterprise, a market economy, and an improved quality of life. More than 800 Bulgarians, including ministers, mayors, supreme court justices, commissioners of the SEC, and the President's chief advisors have participated in the program. In FY 2000, over 200 people took part.

**Social Benefits and Services:** The USAID-funded American Center for International Labor Solidarity (ACILS)

program has provided technical assistance to Bulgaria's trade unions and has supported democratic trade union development through labor education and leadership training for 10 years. In FY 2000, nearly 1,000 union workers were trained each month, and participated in seminars on collective bargaining and labor law, health and safety, privatization and economic reform, and modern labor-management relations. The program also focuses on mitigating the impacts of economic transition by supporting eight regional labor counseling centers to provide legal, employment, and economic counseling services to workers. An important new aspect of the program is its regional dimension to include education activities, information exchange, and best practices programs with trade unions in neighboring countries, using Bulgaria's successful experience.

### ***Public Diplomacy Activities***

SEED funds for Public Diplomacy were used in several key areas to promote democracy, free and responsible media, graduate education in business and economics, public administration curriculum development, and civic education.

The Democracy Commission continues to play a fundamental role in helping community-based NGOs to develop democratic structures at the local level. Small grants, averaging less than \$20,000 each, have funded programs advocating children's rights in Sliven, establishing model areas of inter-ethnic partnership in ethnic Turkish regions, producing television programs on Roma issues, and in other fields of concern. All of the funded projects enhance stability and pluralistic participation in Bulgaria's developing democracy.

SEED funding has been used for U.S.-based media training, principally at the University of Missouri-Columbia, to develop journalists' skills in reporting on important social, economic, and governmental issues. Many of these programs are short-term, i.e., a few weeks, but last year two were one-year professional development courses designed to enhance the participants' skills across themes. The programs also address new technologies in journalism, including on-line resources and information dissemination.

The Office of International Information Programs offers speakers (e.g., a media trainer and a library sciences specialist) or other services (the establishment of a media corner, databases, journals, and other reference materials at the Sofia American Center) to support the free flow of information in a democratic society.

The Ron Brown Fellowship Program, which offers an MBA (or similar) degree in business and related fields, promotes building a new executive corps in Bulgaria skilled in Western business approaches. The Fulbright Commission administers this two-year program, in conjunction with the State Department's Bureau of Educational and Cultural Affairs (ECA). Competition is keen, and the Fulbright Board examines each application, holds extensive interviews, and selects the best two or three fellows each year. ECA coordinates their placement and tracks their academic progress to ensure that the program serves its purpose in each case.

Civic education included the funding of textbooks used from early primary through secondary education on democratic institutions and the role of the citizen in a democracy. These texts were developed by the Center for Open Education (a Bulgarian NGO) and approved by the Ministry of Education for the curriculum. The Center's work has covered both primary and secondary levels quickly with quality Bulgarian-language and Bulgaria-oriented texts.

SEED funding is also being invested in graduate public administration studies. During FY 2000, funding is expected for a series of Academic Specialists to build curriculum at the New Bulgarian University and the University of Sofia. These programs will lead to a university affiliation on public administration.

# Assistance to Bulgaria

## Fiscal Year 2000 Obligations

As of 09/30/2000

Report Date: 12/20/2000

Project Number & Title		Obligation
<b>632(a) Transfers</b>		
1806322	632(a) Transfers	2,427,250
<b>Total for</b>	<b>632(a) Transfers</b>	<b>2,427,250</b>
<b>As % of Total Obligation</b>		<b>4%</b>
<b>Economic Restructuring</b>		
1800010	Enterprise Funds	2,000,000
1800014	Privatization & Enterprise Restructuring	6,051,330
1800023	Technical Assistance to Enterprises	6,752,171
1800024	Restructuring Agriculture & Agribusiness	2,087,699
1800030	Regional Energy Efficiency	1,025,000
<b>Total for</b>	<b>Economic Restructuring</b>	<b>17,916,200</b>
<b>As % of Total Obligation</b>		<b>30%</b>
<b>Democracy</b>		
1800019	Democratic Governance & Public Administration	3,502,895
1800020	Rule Of Law	3,067,500
1800022	Independent Media	400,000
1800032	Non Governmental Organizations Development	2,376,062
<b>Total for</b>	<b>Democracy</b>	<b>9,348,457</b>
<b>As % of Total Obligation</b>		<b>16%</b>
<b>Special Initiatives</b>		
1800029	Management Training & Market Economics Education	800,000
1800045	Participant Training	2,110,000
1800066	Economic Support for Bulgaria	25,000,000
1800249	Audit, Evaluation & Project Support	547,242
1830003	Bulgaria Crisis Recovery Program	681,117
<b>Total for</b>	<b>Special Initiatives</b>	<b>29,138,359</b>
<b>As % of Total Obligation</b>		<b>50%</b>
<b>Country Total:</b>		<b>58,828,266</b>

Includes SEED, DA, ESF, and IDA funds. Only IDA funds obligated in the field are included.

632(a) transfers to other U.S. government agencies are counted as obligated.

Beginning in FY 98, obligations for Kosovo and Montenegro are separated out to the extent possible. The tables for "FRY and Serbia", include FRY obligations that could not be divided up, plus obligations for Serbia.